

FDIC State Profile

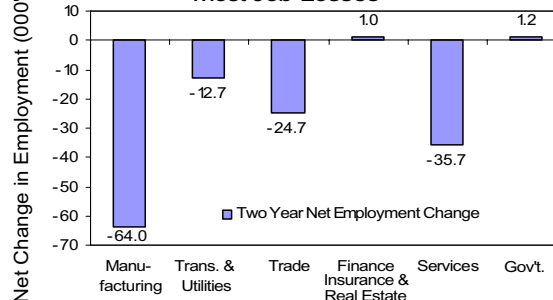
SPRING 2003

Illinois

Continued job losses and deteriorating state fiscal conditions top the list of Illinois' economic concerns.

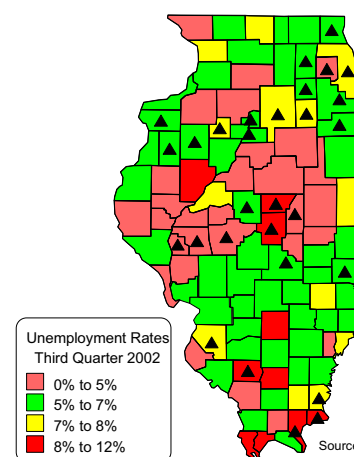
- Illinois' economy is very diverse and mirrors the industrial composition of the nation. Illinois' broad industrial base helps to make it one of the major exporters in the country.
- The manufacturing sector accounts for 15 percent of total employment in the state and for the largest share of job losses during the last two years ending September 2002. (See **Chart 1**). In recent years, productivity gains resulted in fewer jobs, a trend exacerbated by the recent recession.
- The Midwest Manufacturing Index (MMI), which had recovered somewhat early in 2002, has shown very sluggish growth near the end of 2002. The MMI indicates manufacturing activity has not reached pre-recession levels.
- In spite of the modest national recovery, job losses persist in Illinois. As of September 30, 2002, there were 1.3 percent fewer jobs than a year earlier, a slight improvement from the recent trough of -1.6 percent seen at the end of 2001. Nevertheless, job losses in Illinois currently exceed those seen nationally.
- In spite of job losses, real income growth in Illinois started to improve modestly, although still lagging the nation. This lag reflects higher unemployment in IL versus the U.S. Also, many workers with jobs in formerly fast growing sectors such as technology are making significantly less than they were a few years ago.
- The unemployment map (See **Map 1**) shows that counties with the highest unemployment rates are somewhat scattered. Counties with unemployment rates rising faster than the state are predominantly centrally located or around Chicago, apparently because of manufacturing job losses.
- Most metropolitan statistical areas (MSAs) are seeing job losses. Decatur experienced the largest percentage job loss among larger MSAs in Illinois, owing largely to losses in the construction and manufacturing industries.
- Government employment, traditionally more stable, has held up well recently. However, state fiscal conditions may continue to deteriorate as the recovery unfolds. According to the Center on Budget and Policy Priorities, Illinois' fiscal 2004 deficit is expected to reach 11 percent of the state budget. Potential state budget cutbacks present a concern, particularly in the state capitol Springfield, where the share of government employment is high.
- The farm economy is important to many areas of the state, especially its large number of agricultural banks.
- The agricultural sector, which has been depressed for many years, has improved slightly recently (see **Chart 2**). Corn and soybean prices are off recent lows, and the passage of the Farm Bill will also lend support to many farmers.

Chart 1: The Manufacturing Sector Has Had the Most Job Losses



Source: Bureau of Labor Statistics

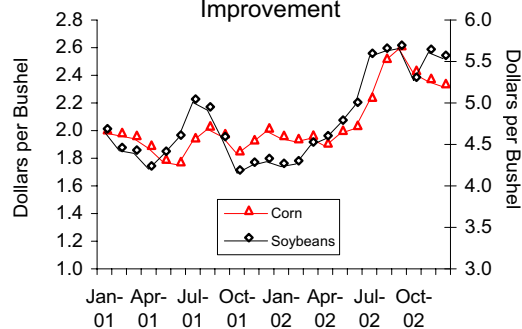
Map 1: Unemployment Rates Have Risen Faster in Some Areas



Source: Bureau of Labor Statistics

Arrows indicate counties where unemployment has risen faster than for the entire state.

Chart 2: Corn and Soybean Prices Show Marked Improvement

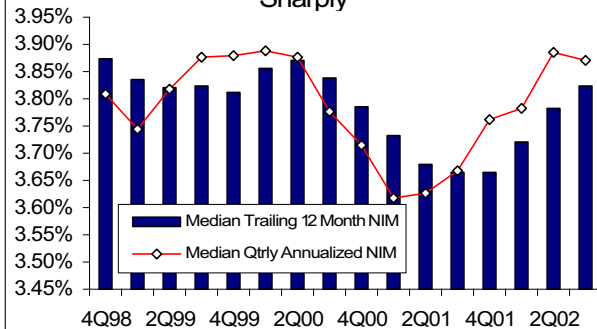


Source: Wall Street Journal

Illinois' insured institutions report profitability gains, yet asset quality concerns remain.

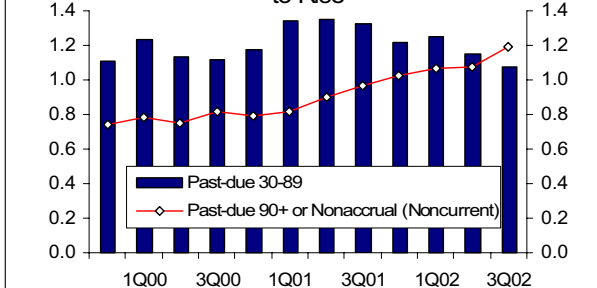
- With nearly 800 institutions headquartered in Illinois, the state is home to a substantial and diverse group of banks and thrifts. The Chicago MSA banking market is one of the nation's largest, with 282 insured institutions headquartered there. Outside of Chicago, the state is home to many smaller institutions, including nearly 200 primarily agricultural institutions.
- Illinois' largest institutions (over \$1 billion in assets) exhibited strong performance during the twelve months ending September 30, 2002. Median annualized return on assets jumped from 1.02 percent to 1.19 percent, as large banks were able to significantly lower funding costs and maintain noninterest income levels.
- Margin improvements (see **Chart 3**) also drove profitability gains among community banks¹. Return on assets for Illinois' community banks improved as net interest margins increased, largely because institutions benefited from the steep yield curve environment.
- Nevertheless, asset quality concerns persist for community institutions. Total past-due levels stabilized from a year ago, yet noncurrent loans, those 90+ days past-due or in nonaccrual status, increased (see **Chart 4**). Improvement in the 30-89 day segment of delinquencies may indicate that further deterioration will not be significant in the near term.
- Although community institutions increased reserves relative to total loans, growth in noncurrent loans outpaced growth in total reserves. As of September 30, 2002, reserve coverage declined to 95 percent, well below the 134 percent level seen just prior to the recent recession.

Chart 3: Net Interest Margins Have Rebounded Sharply



Source: Bank and Thrift Call Reports for Illinois Community Institutions

Chart 4: Noncurrent Loan Rates Have Continued to Rise



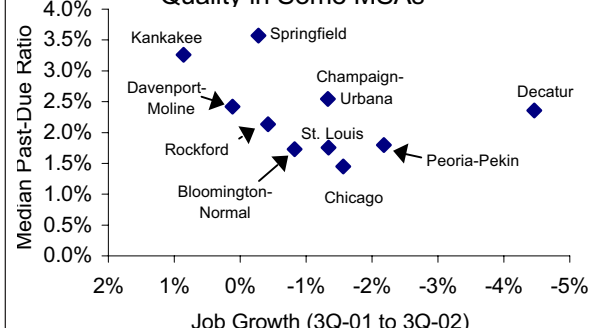
Source: Bank and Thrift Call Reports for Illinois Community Institutions

- Illinois' agricultural banks are performing well. Ag banks have participated in the improvements in margins and profitability seen among the state's institutions. Median ag concentrations among ag banks recently stood at 219 percent of Tier 1 capital, a slight increase from previous years.

Risk Issues to Watch

- Lackluster employment trends may be an indication that asset quality trends, particularly in consumer loan portfolios, may not significantly improve in the near term.
- MSAs that experienced the most job losses during the last year (see **Chart 5**) may face additional credit quality concerns in the near term.
- Springfield banks, which already have relatively higher past-due rates, may face increased pressure if expected state budget cutbacks materially affect the local economy.

Chart 5: Job Losses May Pressure Credit Quality in Some MSAs



¹ "Community banks," as used here, refers to insured institutions with less than \$1 billion in assets, excluding new institutions (those established within the last three years) and specialty banks, such as credit card or niche lenders.

Illinois at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	791	818	828	849	881
Total Assets (in thousands)	535,752,268	446,307,327	389,923,714	366,694,834	310,591,001
New Institutions (# < 3 years)	25	43	40	31	27
New Institutions (# < 9 years)	79	87	79	72	60
Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.06	9.03	9.40	9.23	9.50
Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.91%	1.98%	1.86%	1.88%	1.96%
Past-Due and Nonaccrual ≥ 5%	98	101	73	82	100
ALLL/Total Loans (median %)	1.13%	1.07%	1.07%	1.08%	1.08%
ALLL/Noncurrent Loans (median multiple)	1.36	1.32	1.46	1.37	1.44
Net Loan Losses/Loans (aggregate)	0.86%	0.79%	0.38%	0.31%	0.29%
Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	35	70	67	52	33
Percent Unprofitable	4.4%	8.6%	8.1%	6.1%	3.7%
Return on Assets (median %)	1.04	0.90	0.97	0.96	1.04
25th Percentile	0.71	0.57	0.65	0.64	0.71
Net Interest Margin (median %)	3.81%	3.61%	3.80%	3.78%	3.90%
Yield on Earning Assets (median)	6.47%	7.53%	7.75%	7.40%	7.75%
Cost of Funding Earning Assets (median)	2.67%	3.93%	3.98%	3.67%	3.91%
Provisions to Avg. Assets (median)	0.13%	0.11%	0.10%	0.09%	0.09%
Noninterest Income to Avg. Assets (median)	0.52%	0.51%	0.47%	0.47%	0.49%
Overhead to Avg. Assets (median)	2.61%	2.62%	2.62%	2.60%	2.61%
Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	73.07%	72.53%	72.77%	70.56%	69.24%
Loans to Assets (median %)	61.79%	61.36%	62.08%	60.20%	59.08%
Brokered Deposits (# of Institutions)	152	131	109	100	95
Bro. Deps./Assets (median for above inst.)	4.38%	3.32%	3.05%	2.45%	2.58%
Noncore Funding to Assets (median)	16.22%	15.97%	15.44%	14.12%	13.05%
Core Funding to Assets (median)	72.27%	72.49%	73.06%	74.60%	75.24%
Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	427	446	451	452	469
National	177	186	194	212	221
State Member	75	70	66	65	67
Savings and Loan	28	29	31	31	34
Savings Bank	34	36	36	37	36
Mutually Insured	50	51	50	52	54
MSA Distribution	# of Inst.	Assets (\$thous)	% Inst.	% Assets	
No metropolitan statistical area (MSA)	355	30,889,401	44.9%	5.8%	
Chicago IL PMSA	282	464,859,533	35.7%	86.8%	
St Louis MO-IL	32	4,745,673	4.0%	0.9%	
Peoria-Pekin IL	25	3,979,267	3.2%	0.7%	
Springfield IL	18	7,935,136	2.3%	1.5%	
Rockford IL	17	9,121,747	2.1%	1.7%	
Champaign-Urbana IL	16	3,789,432	2.0%	0.7%	
Davenport-Moline-Rock Island IA-IL	15	1,953,538	1.9%	0.4%	
Decatur IL	11	1,831,837	1.4%	0.3%	
Kankakee IL PMSA	10	1,598,854	1.3%	0.3%	
Bloomington-Normal IL	10	5,047,850	1.3%	0.9%	